# STATE OF NORTH DAKOTA

# BISMARCK, NORTH DAKOTA

# REPORT OF EXAMINATION

# OF

# CENTER MUTUAL INSURANCE COMPANY
# RUGBY, NORTH DAKOTA

# AS OF
# DECEMBER 31, 2002

STATE OF NORTH DAKOTA

DEPARTMENT OF INSURANCE

I, the undersigned, Commissioner of Insurance of the State of North Dakota do hereby certify that I have compared the annexed copy of the Report of Examination of the

**Center Mutual Insurance Company**

**Rugby, North Dakota**

as of December 31, 2002, with the original on file in this Department and that the same is a correct transcript therefrom and of the whole of said original.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal at my office in the City of Bismarck, this _____ day of _______________, 2004.

___________________________________
Jim Poolman
Commissioner of Insurance

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Rugby, North Dakota
October 18, 2003

Honorable Alfred W. Gross
Chair, Financial Condition Committee
Subcommittee, NAIC
Secretary, Southeastern Zone, NAIC
Commissioner
Bureau of Insurance
Commonwealth of Virginia
P.O. Box 1157
Richmond, Virginia 23218

Honorable Sally McCarty
Secretary, Midwestern Zone
Commissioner of Insurance
Indiana Department of Insurance
311 West Washington Street, Suite 300
Indianapolis, Indiana 46204-2787

Honorable Jim Poolman
Chair, Midwestern Zone
Commissioner of Insurance
North Dakota Department of Insurance
600 East Boulevard
Bismarck, ND 58505-0320

Commissioners:

Pursuant to your instructions and statutory requirements, a financial examination has been made of the books, records and financial condition of

**Center Mutual Insurance Company**
**Rugby, North Dakota**

Center Mutual Insurance Company, hereinafter referred to as the "Company", was last examined as of December 31, 1997, by the North Dakota Insurance Department.

## SCOPE OF EXAMINATION

This examination was a financial condition examination conducted in accordance with N.D. Cent. Code § 26.1-03-19.3 and observed guidelines and procedures contained in the NAIC *Financial Condition Examiners Handbook*. The examination was conducted to determine the Company's financial condition, its compliance with statutes, and to review the corporate affairs and insurance operations. This statutory examination covers the period from January 1, 1998, to and including December 31, 2002, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this statutory examination.

Work papers provided by the Company's independent auditor, Brady, Martz & Associates, P.C. were reviewed and where deemed appropriate certain procedures and conclusions documented in those work papers have been relied upon and copied for inclusion into the working papers for this examination.

All recommendations made in the prior report of statutory examination have been adequately addressed by the Company except as follows:

| **Recommendation** | **Company Response** |
|---|---|
| It is recommended that the Company file a report with the Commissioner whenever it cancels, revises, or nonrenews ceded reinsurance agreements determined to be material according to the standards set forth in N.D. Cent. Code § 26.1-10.1-03. | The Company did not notify the Commissioner when it revised its reinsurance program in 2001 or in 2002 when it canceled the 50% liability quota share contract and entered into the 50% multi-line quota share contract. |

This examination was conducted by Examiners from the North Dakota Insurance Department, representing the Midwestern Zone.

# HISTORY

## General

The Company was incorporated on August 29, 1917, as Publishers Mutual Fire Insurance Company of North Dakota. On December 9, 1968, Farmers Mutual Insurance Company of Rugby merged into the Company. At the same time, the name of the Company was changed to Center Mutual Insurance Company. On April 23, 1970, the Company entered into a reinsurance agreement with Farmers Mutual Insurance Company, Harvey, North Dakota, and assumed all of the business, assets, and liabilities of the Harvey company which was then dissolved.

The purpose for which the Company was formed, according to the Articles of Incorporation, is to insure and make contracts of insurance in all forms now authorized or which may be authorized under the laws of the State of North Dakota relating to incorporated mutual insurance companies.

## Board of Directors

The Bylaws provide that the number of directors shall consist of not less than 5 nor more than 15 members, a majority of whom shall constitute a quorum to do business. Nominations for directors must be submitted to the Secretary-Treasurer of the Company by September 1 to be considered by the members at their annual meeting and from these nominations the appropriate number of directors shall be elected by the members at the annual meeting for a period of three years.

The Bylaws provide that the Board of Directors shall meet annually on the fourth Thursday in October in each year immediately following the annual meeting of members. The minutes show that the annual meetings of the Board were held as required by the Bylaws. In addition to the annual meetings, the Board held one additional meeting in 1998, 1999, 2000, and 2002 and three additional meetings in 2001.

Directors serving at December 31, 2002, were as follows:

| Name and Address | Business Affiliations |
|---|---|
| Arlen C. Blessum<br>Rugby, North Dakota | Retired |
| Robert D. Leonard<br>Dunseith, North Dakota | Retired |
| Rose M. Schneibel<br>Rugby, North Dakota | Secretary-Treasurer<br>Center Mutual Insurance Company |
| Arland W. Geiszler<br>Rugby, North Dakota | Vice President<br>Center Mutual Insurance Company |
| Robert W. Moran<br>Jamestown, North Dakota | Retired |
| Robert B. St. Michel<br>Rugby, North Dakota | Businessman |
| Robert J. Hovland<br>Rugby, North Dakota | President<br>Center Mutual Insurance Company |
| Rodney Lee Romine<br>Minot, North Dakota | Retired |
| Rodger S. Zurcher<br>Glenburn, North Dakota | Farmer |

## Officers

The Bylaws provide that the elected officers of the Company shall be a Chairman of the Board, Vice Chairman, President, and Vice President all of whom shall hold their office for one year. The Directors shall also select a Secretary and Treasurer who need not be members of the Company and one person may hold both offices of Secretary and Treasurer.

The officers duly elected by the Board of Directors and holding office at December 31, 2002, were as follows:

| Officer | Title |
|---|---|
| Robert D. Leonard | Chairman of the Board |
| Arlen C. Blessum | Vice Chairman |
| Robert J. Hovland | President |
| Rose M. Schneibel | Secretary and Treasurer |

## Committees

The Bylaws provide the Board of Directors shall chose two members at its annual meeting to serve with the Chairman of the Board, the President, and the Secretary as the Executive Committee. Members serving on the Executive Committee at December 31, 2002, were as follows:

Robert D. Leonard
Arlen C. Blessum
Robert J. Hovland
Rodney L. Romine
Rose M. Schneibel

## Conflict of Interest

Once a year, all directors, officers, and key employees are asked to complete and sign a conflict of interest statement. The conflict of interest statements for the years under examination were reviewed. Two officers represent the Company as agents. That disclosure was properly made on the conflict of interest statements during the period under review.

## Articles of Incorporation and Bylaws

The Bylaws and Articles of Incorporation and all amendments thereto were read by the Examiner. There were no changes to the Articles of Incorporation or Bylaws during the period under examination.

## Board of Directors, Policyholders, and Committee Minutes

The minutes of the Board of Directors, policyholders, and committee meetings for the period under examination were read and reviewed for compliance with the Bylaws, Articles of Incorporation and statutory requirements. The following exception was noted:

- Approval of Investments: N.D. Admin. Code § 45-03-12-05 provides that the Board of Directors or committee of the Board of Directors shall receive and review a summary report on the insurer's investment portfolio and its investment activities on no less than a quarterly basis. It was noted that Board approval of investment transactions is given twice a year or less than the quarterly requirement. **It is recommended that the Company implement a procedure to provide for quarterly authorization of investment transactions by the Executive Committee or by corporate resolution signed by the directors.**

# AFFILIATED COMPANIES

## Rugby Insurance Agency

The Company's President and Vice President are partners in Rugby Insurance Agency, an independent insurance agency, which represents the Company as an agent. Rugby Insurance Agency also occupies space in the Company's home office building for which it paid an annual rent and reimbursed the Company for other office-related expenses. Commissions paid to

Rugby Insurance Agency during the period under review along with expense reimbursements paid by Rugby Insurance Agency were as follows:

| | | | Expense Reimbursement | |
|---|---|---|---|---|
| **Year** | **Commissions Paid** | **Rent** | **Telephone** | **Salary** |
| 1998 | $102,379 | $2,400 | $840 | $4,800 |
| 1999 | 103,500 | 2,400 | 840 | 4,800 |
| 2000 | 107,559 | 2,400 | 840 | 4,800 |
| 2001 | 119,122 | 2,400 | 840 | 4,800 |
| 2002 | 133,530 | 2,520 | 840 | 4,800 |

The Board of Directors reviewed the rent charged Rugby Insurance Agency on an annual basis during the period under examination in accordance with a Board resolution adopted on April 25, 1996.

## FIDELITY BOND AND OTHER INSURANCE

The Company is insured by an employee dishonesty blanket bond which provides $500,000 of basic coverage. The amount of coverage meets the minimum amount recommended in the NAIC *Examiners Handbook.*

Other insurance coverage covering the Company appeared adequate.

## PENSION AND INSURANCE PLANS

**Employee Benefit Plan**

All qualified full-time employees are provided with group life insurance, accidental death and dismemberment, and comprehensive medical expense.

**Employee Retirement Plan**

Effective May 1, 1995, the Company converted its pension plan from a defined contribution plan to a money purchase plan. The plan covers all employees with one year of service. Employees are fully vested after five years. The Company's contribution is equal to 10 percent of each employee's compensation. The Company funds the plan on a monthly basis.

The Company's contributions to the plan during the period under examination were:

| | |
|---|---|
| 1998 | $74,298 |
| 1999 | $83,010 |
| 2000 | $86,896 |
| 2001 | $87,609 |
| 2002 | $86,835 |

**401(k) Plan**

On May 1, 1993, the Company established a 401(k) plan for qualifying employees. The plan was restated effective May 1, 2002. The plan permits eligible employees to defer a percentage of their compensation each year. The Company makes matching contributions equal to 50 percent of employee salary deferrals up to 6 percent of deferred salary.

The Company's contributions to the plan were:

| | |
|---|---|
| 1998 | $21,206 |
| 1999 | 24,077 |
| 2000 | 26,610 |
| 2001 | 25,354 |
| 2002 | 25,090 |

# STATUTORY DEPOSITS

The Company maintained the following deposits at December 31, 2002:

| Location | Type of Asset | Statement Value | Fair Value |
|---|---|---|---|
| Bank of North Dakota | Bond | $260,856 | $277,863 |

The deposit is held for the protection of policyholders from the State of South Dakota.

# TERRITORY AND PLAN OF OPERATION

**Territory**

The Company is currently licensed and qualified to transact business in the States of North Dakota and South Dakota. The Certificates of Authority issued by these states were reviewed and found to be in proper order and effect.

**Plan of Operation**

The Company writes primarily personal automobile, homeowners, and farmowners coverages in the States of North Dakota and South Dakota. The auto business comprised over 65 percent of direct business written in 2002.

**Marketing**

At December 31, 2002, the Company had approximately 543 licensed agents in the States of North Dakota and South Dakota.

# POLICY FORMS AND UNDERWRITING
# ADVERTISING AND SALES MATERIAL
# TREATMENT OF POLICYHOLDERS

The North Dakota Insurance Department has a market conduct staff which performs a review of these areas and issues a separate market conduct report.

# REINSURANCE

**Ceded**

The Company ceded reinsurance premiums totaling $6,967,037 during 2002 and as of December 31, 2002, had loss and loss adjustment expense reserve credits for ceded business totaling $1,644,402 and an unearned premium reserve credit of $3,570,845.

A summary of the significant ceding agreements in effect at December 31, 2002, are as follows:

| | |
|---|---|
| Type: | Multiple Line Excess |
| Reinsurers: | SCOR Reinsurance Company |
| Scope: | Homeowners and Farmowners Multi-Peril, Residential and Farm Fire & Allied Lines, Farm Truck Physical Damage, Auto and Farm Truck Liability, Inland Marine, Owners, Landlords & Tenants Liability, Comprehensive Personal Liability and Farmowners Comprehensive Personal Liability |
| Coverage: | Property - $875,000 excess of $125,000. The maximum limit of liability for the reinsurer shall not exceed $1,750,000 any one loss occurrence.<br><br>Casualty - $875,000 excess of $125,000. |
| Premium: | 3.75% of subject gross net earned premium. |
| Effective Date: | January 1, 2002 |
| Termination: | Either party any January 1 by giving 90 days written notice |

| | | |
|---|---|---|
| Type: | Property Catastrophe Excess of Loss | |
| Reinsurers: | American Agricultural Insurance Co. | 5.0% |
| | Arch Reinsurance Company | 20.0% |
| | St. Paul Re, Inc., Reinsurance Manager for St. Paul Fire & Marine Ins. Co. | 7.5% |
| | Odyssey America Reinsurance Co. | 5.0% |
| | R + V Versicherung A.G. | 12.5% |
| | Underwriters at Lloyd's London | 50.0% |
| | Mutual Reinsurance Bureau (Fourth Excess) | 100.0% |

Scope: Policies classified as property including Homeowners, Farmowners (Section 1), Residential and Farm Fire & Allied Lines, Automobile and Farm Truck Physical Damage and Inland Marine.

Coverage:

| | | | |
|---|---|---|---|
| First Excess: | $500,000 | xs of | $500,000 |
| Second Excess: | $1,000,000 | xs of | $1,000,000 |
| Third Excess: | $5,000,000 | xs of | $2,000,000 |
| Fourth Excess: | $3,000,000 | xs of | $7,000,000 |

Each layer allows for an all loss occurrence of two times the limit, i.e., $1,000,000 for the first layer, $2,000,000 for the second layer, $10,000,000 for the third layer, and $6,000,000 for the fourth layer.

Premium:

| | | |
|---|---|---|
| First Excess: | 3.328% - | $150,000 annual minimum premium |
| Second Excess: | 3.107% - | $140,000 annual minimum premium |
| Third Excess: | 2.662% - | $120,000 annual minimum premium |
| Fourth Excess: | .652% - | $ 39,000 annual minimum premium |

Commissions: None

Effective Date: January 1, 2002

Termination: January 1, 2003

Type: Multiple Line Quota Share

Reinsurer: PMA Capital Insurance Company

Scope: Property business: Homeowners Multi-Peril (Section I), Farmowners Multi-Peril (Section I), Residential and Farm Fire & Allied Lines, Inland Marine, Automobile and Farm Truck Physical Damage (Comprehensive and Collision)

Casualty business: Homeowners Multi-Peril (Section II), Farmowners Multi-Peril (Section II), Automobile and Farm Truck Liability, Owners, Landlords and Tenants Liability, Comprehensive Personal Liability and Farmowners Comprehensive Personal Liability

Coverage: 50% share of the Company’s net liability

Premium: Proportional share of net premium written on policies subject to the contract.

Commissions: 30% provisional commission subject to an adjustment down to a 18% commission rate for every 1% increase in the loss ratio in excess of 66% but less than 78%.

Effective Date: December 31, 2002

Termination: January 1, 2004

The reinsurance agreements contain the insolvency clause required by N.D. Century Code ' 26.1-02-21 and all of the required clauses set forth in the NAIC’s *Accounting Practices and Procedures Manual.*

N.D. Century Code ' 26.1-10.1-03 requires domestic insurance companies to file a report with the Commissioner disclosing material nonrenewals, cancellations or revisions of ceded reinsurance agreements. The Company made material changes to its reinsurance agreements as defined by N.D. Cent. Code § 26.1-10.1-03 in the following two instances but did not file a report with the Commissioner disclosing those changes:

1. In 2001 the Company changed its reinsurance intermediary to Willis Re Inc. and in conjunction with that change, entered into new reinsurance agreements administered by Willis Re Inc. The reinsurance agreements administered by the previous intermediary were canceled.

2. On December 31, 2002, the Company canceled its 50% liability quota share contract and entered into a 50% multiple line quota share reinsurance contract.

**It is again recommended that the Company file a report with the Commissioner whenever it cancels, revises, or nonrenews ceded reinsurance agreements determined to be material according to the standards set forth in N.D. Cent. Code ' 26.1-10.1-03.**

## ACCOUNTS AND RECORDS

The Company's accounting procedures, internal controls, and transaction cycles were reviewed during the course of the examination and a trial balance as of December 31, 2002, was extracted from the general ledger and traced to the appropriate schedules of the Company's 2002 Annual Statement. The Company's ledgers are maintained electronically. Revenues and expenses were test checked to the extent deemed necessary.

The Company is audited annually by an outside firm of independent certified public accountants. The work papers of this firm were made available to the Examiners and were used to an extent deemed appropriate for this examination.

### Information Systems Operations

The information systems and operations were reviewed. No significant exceptions or problems were noted. Managerial controls and organizational controls were considered to be sufficiently strong to warrant reliance.

## FINANCIAL STATEMENTS

The financial statements of the Company are presented on the following pages in the sequence listed below:

Statement of Assets, Liabilities, Surplus and Other Funds, December 31, 2002
Underwriting and Investment Exhibit, Year 2002
Reconciliation of Capital and Surplus, January 1, 1998 through December 31, 2002

**Center Mutual Insurance Company**
**Statement of Assets, Liabilities, Surplus, and Other Funds**
**as of December 31, 2002**

| | Assets | Nonadmitted Assets | Net Admitted Assets |
|---|---|---|---|
| Bonds | $ 8,587,708 | | $ 8,587,708 |
| Stocks: | | | |
| Common Stocks | 478,125 | | 478,125 |
| Real Estate: | | | |
| Properties Occupied by the Company | 602,264 | | 602,264 |
| Cash | (407,773) | | (407,773) |
| Short-Term Investments | 4,205,331 | | 4,205,331 |
| Other Invested Assets | 99,365 | | 99,365 |
| Agents' Balances or Uncollected Premiums: | | | |
| Premiums and Agents' Balances in Course of Collection | 575,927 | $59,972 | 515,955 |
| Premiums, Agents' Balances and Installments Booked but Deferred and Not Yet Due | 1,312,844 | | 1,312,844 |
| Reinsurance Recoverables on Loss and Loss Adjustment Expense Payments | 304,166 | | 304,166 |
| Federal Income Taxes Recoverable (including $528,296 net deferred tax asset) | 868,547 | 340,251 | 528,296 |
| Electronic Data Processing Equipment and Software | 81,983 | | 81,983 |
| Interest, Dividends, and Real Estate Income Due and Accrued | 130,047 | | 130,047 |
| Other Assets Nonadmitted | 12,551 | 12,551 | |
| Company Owned Vehicles | 51,457 | 51,457 | |
| Totals | $16,902,542 | $464,231 | $16,438,311 |

**Center Mutual Insurance Company**
**Statement of Assets, Liabilities, Surplus, and Other Funds**
**as of December 31, 2002**

| | | |
|---|---|---|
| Losses | | $ 4,349,372 |
| Loss Adjustment Expenses | | 468,797 |
| Commissions Payable, Contingent Commissions and Other Similar Charges | | 268,816 |
| Other Expenses | | 104,698 |
| Taxes, Licenses, and Fees | | 148,060 |
| Federal Income Taxes | | 210,716 |
| Unearned Premiums | | 3,552,956 |
| Advance Premiums | | 273,524 |
| Ceded Reinsurance Premiums Payable | | 1,987,308 |
| Funds Held by Company under Reinsurance Treaties | | 33,900 |
| Amounts Withheld or Retained by Company for Account of Others | | 4,571 |
| Provision for Reinsurance | | 10,066 |
| Total Liabilities | | $11,412,784 |
| Unassigned Funds (Surplus) | $5,025,527 | |
| Surplus as Regards Policyholders | | 5,025,527 |
| Total | | $16,438,311 |

**Center Mutual Insurance Company**
**Underwriting and Investment Exhibit**
**for the Year Ended December 31, 2002**

| | | |
|---|---|---|
| **UNDERWRITING INCOME** | | |
| Premiums Earned | | $12,897,047 |
| Deductions: | | |
| Losses Incurred | $8,104,361 | |
| Loss Expenses Incurred | 739,403 | |
| Other Underwriting Expenses Incurred | 2,864,250 | |
| Total Underwriting Deductions | | 11,708,014 |
| Net Underwriting Gain or (Loss) | | $ 1,189,033 |
| **INVESTMENT INCOME** | | |
| Net Investment Income Earned | $ 370,284 | |
| Net Realized Capital Gains or Losses | 155,444 | |
| Net Investment Gain or (Loss) | | 525,728 |
| **OTHER INCOME** | | |
| Miscellaneous Income | $ 1,284 | |
| Total Other Income | | 1,284 |
| Net Income Before Federal Income Taxes | | $ 1,716,045 |
| Federal Income Taxes Incurred | | 380,739 |
| Net Income | | $ 1,335,306 |

**Center Mutual Insurance Company**
**Reconciliation of Capital and Surplus Accounts**
**January 1, 1998, Through December 31, 2002**

| | **2002** | **2001** | **2000** | **1999** | **1998** |
|---|---|---|---|---|---|
| Capital and Surplus, December 31, Previous Year | $3,690,747 | $4,312,821 | $5,165,330 | $4,775,755 | $4,485,427 |
| Net Income | 1,335,306 | (701,311) | (294,025) | 213,628 | 154,761 |
| Net Unrealized Capital Gains or (Losses) | (147,731) | (210,212) | (592,255) | 182,570 | 129,740 |
| Change in Net Deferred Income Tax | 81,038 | 356,615 | | | |
| Change in Nonadmitted Assets | 76,233 | (498,060) | 33,771 | (6,623) | 5,827 |
| Change in Provision for Reinsurance | (10,066) | | | | |
| Cumulative Effect of Changes in Accounting Principles | | 430,894 | | | |
| Net Change in Capital and Surplus for the Year | $1,334,780 | $(622,074) | $(852,509) | $389,575 | $290,328 |
| Capital and Surplus, December 31, Current Year | $5,025,527 | $3,690,747 | $4,312,821 | $5,165,330 | $4,775,755 |

# COMMENTS ON FINANCIAL STATEMENTS

## Bonds

The Company uses the straight line method to amortize bond premium or discount rather than the scientific (constant yield) method required by SSAP No. 26 paragraph 6. **It is recommended that the Company amortize bond premium or discount using the scientific method rather than the straight line method.**

## Federal Income Tax Recoverable

The Examiners noted the following exceptions in the Company's calculation of admitted and nonadmitted deferred tax assets:

1. The Company overstated gross deferred tax assets because it incorrectly computed a deferred tax asset for a net operating loss carryover, capital loss carryover, and AMT credit which amounts have already been applied in the 2002 federal income tax provision.

2. The Company did not include the regular tax to be reported on the 2002 federal tax return in its calculation of admitted deferred tax assets.

3. The Company incorrectly used the financial results from its December 31, 2002 annual statement rather than the September 30, 2002 quarterly statement in calculating the 10% surplus limitation, under paragraph 10 (b) (ii) of SSAP No. 10.

4. The Company's projected one-year recovery of the temporary difference associated with loss reserves was determined to be excessive. The Examiners reduced the 87% reversal factor used by the Company to 55%, but applied the factor only to the loss reserve temporary difference rather than to the combined loss and loss adjustment expense temporary difference as the Company had done.

**It is recommended that the Company calculate the amount of admitted deferred tax assets in strict adherence to the admissibility criteria of SSAP No. 10 of the NAIC's *Accounting Practices and Procedures Manual.***

## Losses and Loss Adjustment Expenses

This examination projected the Company's gross reserves for unpaid losses and loss adjustment expenses using the following methods: incurred loss development, paid loss development, incurred Bornhuetter/Ferguson, and paid Bornhuetter/Ferguson and a projection of ultimate claim frequency and claim severity. The analysis of net reserves relied on the same methods plus a method that projects the current incurred gross versus net relationship to ultimate. The loss development factors were based on a review of the Company's historical development. All of the Company's lines of business were tested except for reinsurance B.

This examination projected the Company's loss and allocated loss adjustment expense reserves on a combined basis on both a gross and net basis. Unallocated loss adjustment expense reserves were projected using percentage relationships of loss reserves. The reserve review found the combined net loss and loss adjustment expense reserves were adequate.

Underlying data was tested by the Examiners with no differences noted.

The Company purchases annuities from life companies, under which the claimant is payee, to fund future payments that are fixed pursuant to specific claim settlement provisions. The Company did not disclose the amount of related reserves no longer carried by the Company under Note 26 (Structured Settlements) of the Notes to the Financial Statements as required by *NAIC Annual Statement Instructions*.

**It is recommended that the Company disclose the amount of reserves no longer carried by the Company, resulting from the purchase of annuities with the claimant as payee, under Note 26 (Structured Settlements) of the Notes to the Financial Statements.**

## Ceded Reinsurance Balances Payable

Effective December 31, 2002, the Company canceled a 50% liability quota share contract and entered into a 50% multiple line quota share reinsurance contract. The Company reported the approximate $780,000 net reinsurance ceding commission from this transaction on line 1402 of page 4 as a write-in income item rather than as a reinsurance ceding commission (Line 2.3) in Part 3 - Expenses. **It is recommended that the Company report all reinsurance ceding commissions in Part 3- Expenses as required by NAIC *Annual Statement Instructions* instead of reporting the uncollected commission as a write-in income item on page 4 of the Annual Statement.**

# CONCLUSION

The financial condition of the Company, as of December 31, 2002, as determined by this examination is summarized as follows:

| | | |
|---|---|---|
| Admitted Assets | | $16,438,311 |
| Total Liabilities | $11,412,784 | |
| Surplus as Regards Policyholders | 5,025,527 | |
| Liabilities, Surplus, and Other Funds | | $16,438,311 |

No change was made in the balance sheet amounts reported by the Company in its 2002 annual statement.

Since the last examination conducted as of December 31, 1997, the Company's admitted assets have increased $4,944,408, its total liabilities have increased $4,404,308, and its surplus as regards policyholders has increased $540,100.

The courteous cooperation extended by the officers and employees of the Company during the course of the examination is gratefully acknowledged.

In addition to the undersigned, Rhoda Sautner, CPA, Carole Kessel, CPA and Chief Examiner, and Mike Andring, ACAS, of the North Dakota Insurance Department participated in this examination.

Respectfully submitted,

David Weiss, CFE
Examiner
North Dakota Insurance Department

# COMMENTS AND RECOMMENDATIONS

It is recommended that the Company implement a procedure to provide for quarterly authorization of investment transactions by the Executive Committee or by corporate resolution signed by the directors.

It is again recommended that the Company file a report with the Commissioner whenever it cancels, revises, or nonrenews ceded reinsurance agreements determined to be material according to the standards set forth in N.D. Cent. Code ' 26.1-10.1-03.

It is recommended that the Company amortize bond premium or discount using the scientific method rather than the straight line method as required by SSAP No. 26 paragraph 6.

It is recommended that the Company calculate the amount of admitted deferred tax assets in strict adherence to the admissibility criteria of SSAP No. 10 of the NAIC's *Accounting Practices and Procedures Manual.*

It is recommended that the Company disclose the amount of reserves no longer carried by the Company, resulting from the purchase of annuities with the claimant as payee, under Note 26 (Structured Settlements) of the Notes to the Financial Statements.

It is recommended that the Company report all reinsurance ceding commissions in Part 3-Expenses as required by NAIC *Annual Statement Instructions* instead of reporting the uncollected commission as a write-in income item on page 4 of the Annual Statement.